



# **United Technologies**

## **Federal Acquisition Advisory Panel Acquisition of Services**

**Neil A. Hassett**

**Assistant General Counsel**



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## Agenda

United Technologies Corporation

General Supply Management Organization and Approach

Panel Questions Addressed

Competition

Fixed Price Contracting

Reopening Competition

Terms of Contracts

Time and Material Contracting

Gain Sharing

Base Lining

Performance Incentives



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United Technologies Corporation

\$37 Billion Sales

Carrier heating and cooling

UTC Fire & Security Corporation (formerly Chubb  
Security Systems)

Hamilton Sundstrand aerospace systems and industrial  
products

Otis elevators and escalators

Pratt & Whitney aircraft engines

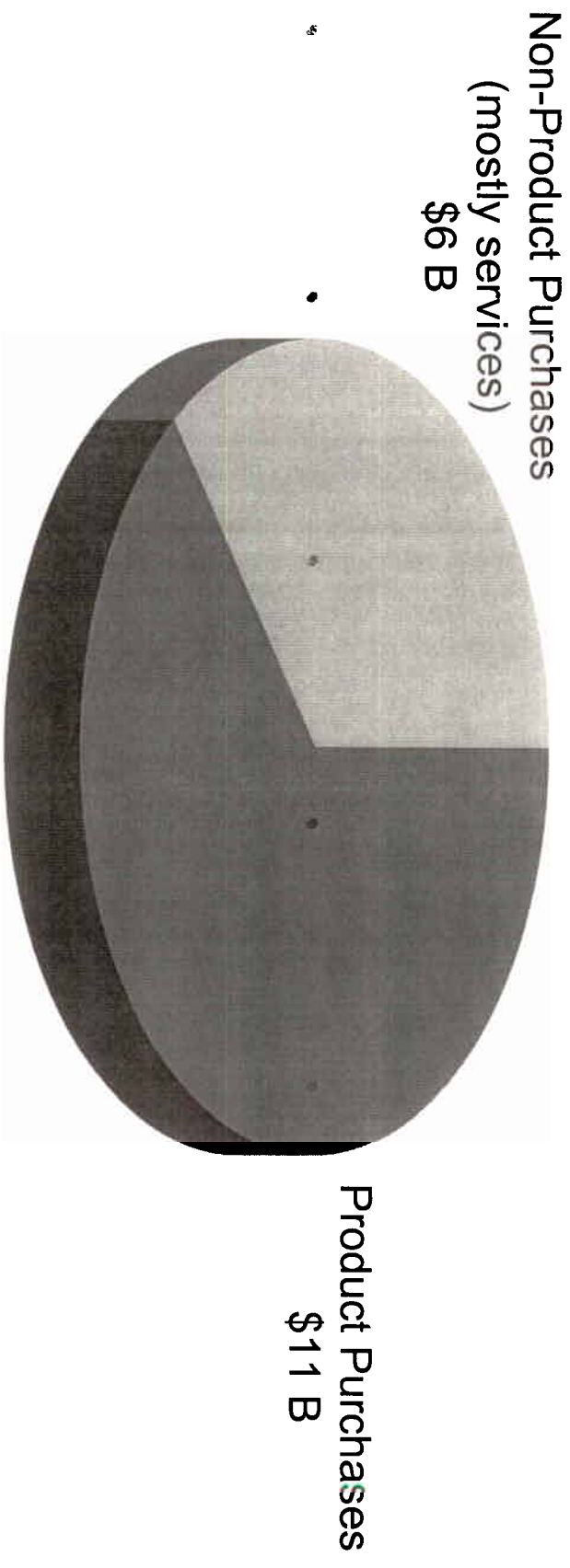
Sikorsky helicopters

UTC Power fuel cells



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## Purchasing Activity



## Purchases



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## Supply Management Philosophy

### General services

Master Terms Agreements at UTC level

Numerous Master Terms Agreements (MTAs) for each type of service

Business units can choose

Sole source (e.g. IT infrastructure/BPO)

Avoided

Concentrated activity



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## Supply Management Categories

Chemical/Environmental, Health & Safety (EH&S)

Industrial equipment/facilities

Human Resource Services

**Technology services**

Travel

**Business and office systems**

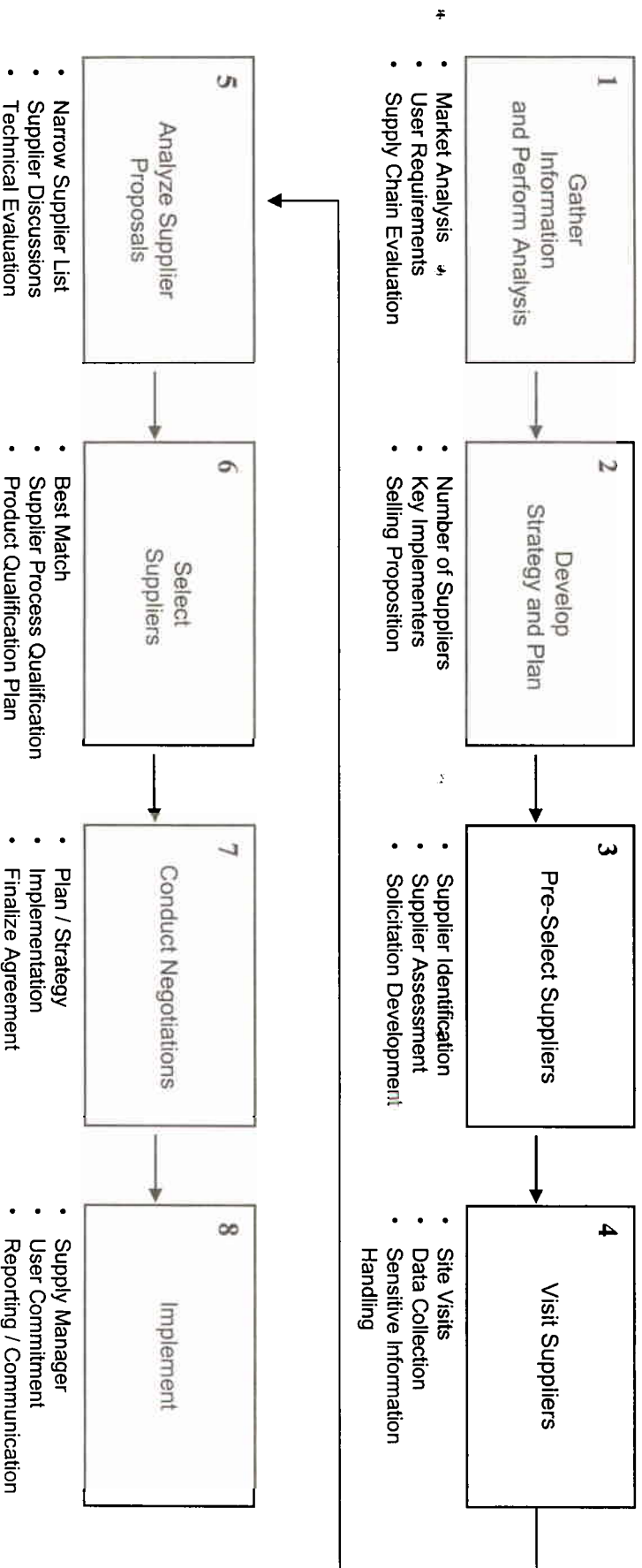
**Engineering services**

Transportation and logistics



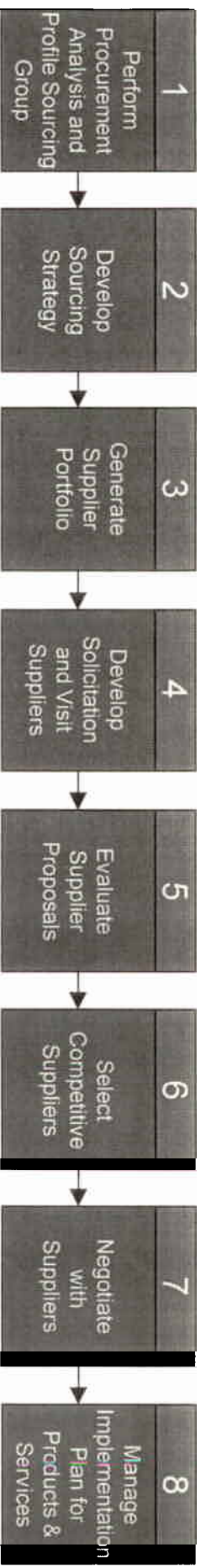
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## “8 Step” Sourcing Process



# UTC Supply Management

## GGPS 8-step Process & Tool Box = Passport Review



enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step
•Step 1 Resources	•Negotiation Pre-planner	•Standard RFI	•Standard RFP		•E-Auction Templates	•Executive Summary	•Implementation Process
•Project Summary		•Open Ratings Link •NDA or Not •Contractor Security Rqmts •MWBE Clause	•Recommendations of when to use QS OLBA •On-Line Bidding Terms 		•Evaluation worksheet	•Contract Documentation & File Process •Contract Implementation Checklist 	•Supplier Scorecard •Standard MTA

\*\*Tool being developed





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**Competition**

**Maximize use of**

**To enter into Master Terms Agreements**

**In large projects**

**Reverse auctions**

**Outsourcing Contracting**



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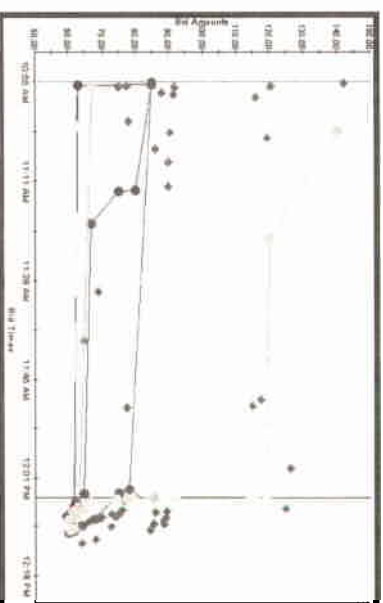
## COMPETITION - Reverse Auctions (Competition technique)

First online competitive bidding event in 1996

Conducted hundreds of sourcing projects

Sourced \$ billions

Proven savings





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## Competition - Bidding Examples

Tax Preparation Services

360° Feedback Services

Service Awards

Video Conferencing Services

Actuarial Services

Immigration Legal Services

Software Applications Services

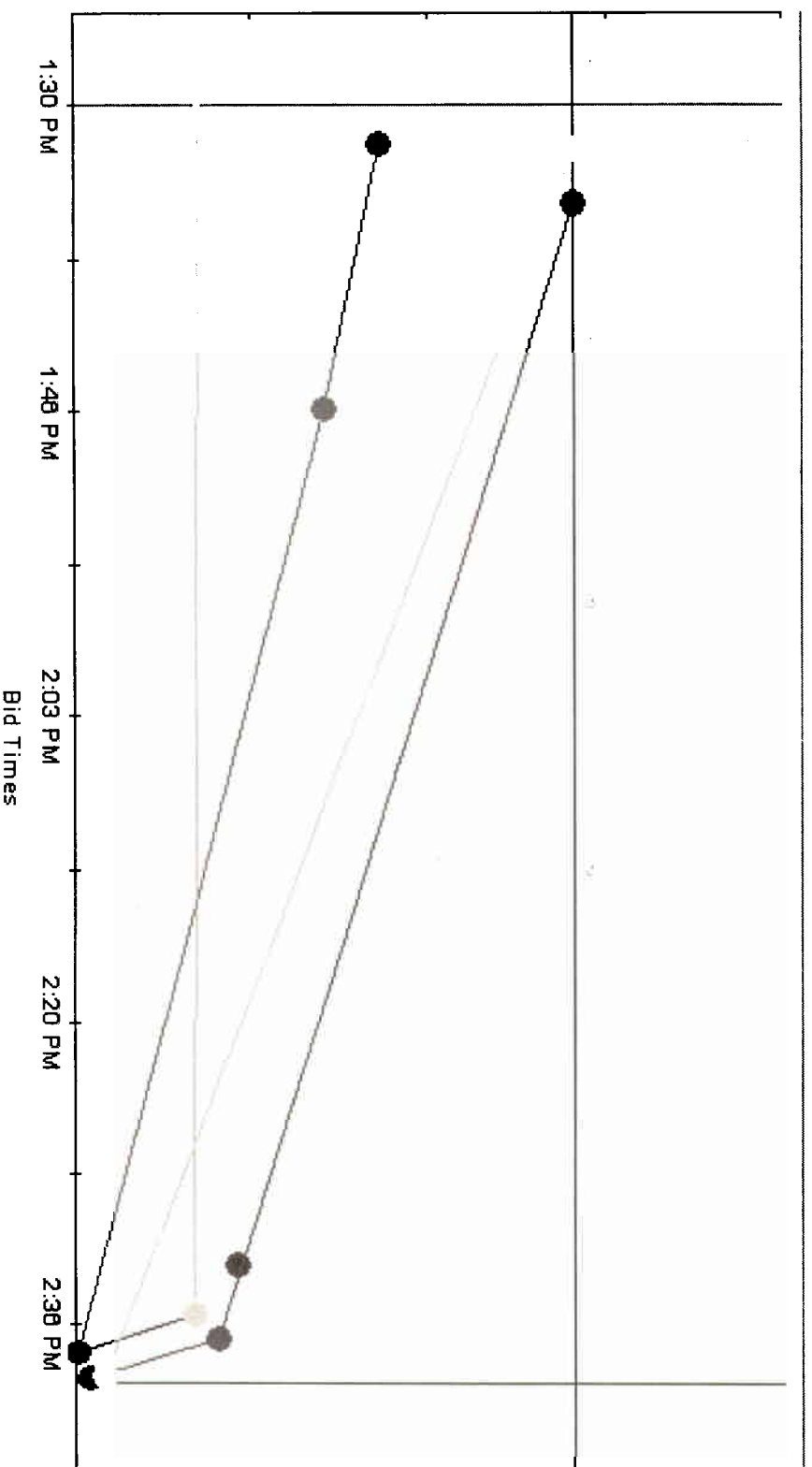
Engineering Services

Building Demolition



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## Competition - Corporate Relocation – Example Event





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## Competition - Outsourcing Model (Competition Technique)

Formulate Request for Proposal (RFP) – baseline,  
SLAs, pricing model, form contract

Selection process for bidders

RFP issuance

Q&A (Bidder Qs/UTC As)

Proposals submitted

Q&A (UTC Qs/Bidder As)



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## Competition - Outsourcing Model (Cont'd)

Down select to two bidders – rigorous review by procurement specialists, tower specialists, accountants (apples to apples) and legal

Negotiate with two bidders

Best and final offer

Structured review and selection including top management

Final negotiations and award



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## Firm-Fixed Price (FFP) Contracts

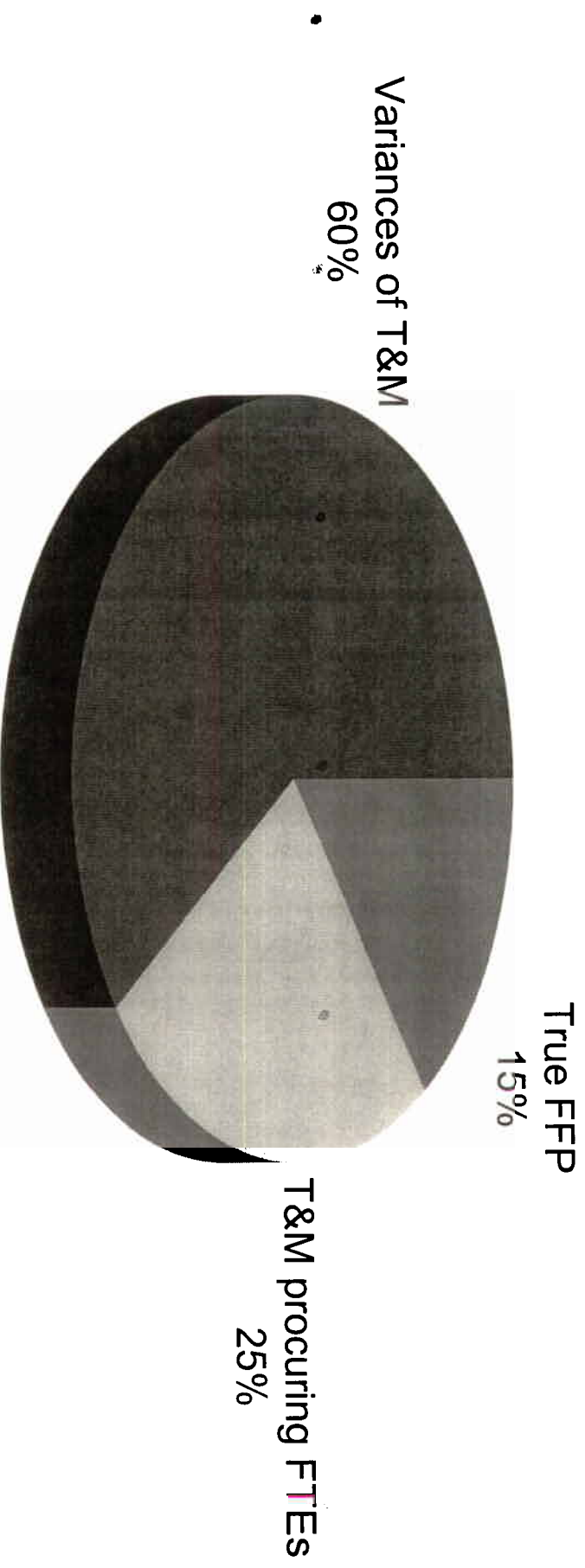
FFP preferred when work can be defined well enough  
FFP (with competition) foster efficiency in supply chain  
FFP (without competition) results in excessive  
contingency



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## Firm-Fixed Price Contracts (Cont'd)



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## Firm-Fixed Price Contracts (Cont'd)

IT Services (Applications)

Manage applications/project work

Strive for FFP

Approximately 25% FFP

Work usually not defined well enough (effort not perceived to be worth it)

Competition to obtain Master Terms Agreement and be used by business units



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## **Firm-Fixed Price Contracts (Cont'd)**

### **Major Outsourcing Transactions**

**Once steady state reached**

**FFP with ARCs (Additional Resource Charges) and  
RRCs (Reduced Resource Charges)**



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## **Contract Terms**

**Standard Terms**

**Warranty**

**“Most Favored Nations”**

**Service Level Agreements and Credits**

**Social provisions**

**Treatment of UTC information (proprietary and security)**

**Indemnity**



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## Contract Terms (Cont'd)

Intellectual Property

Termination for convenience (charge for what has been delivered plus specified in contract)

Code of Ethics

Insurance

Computer access

Default

Compliance with laws

Audit



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## Reopening Competition

Situation with numerous Master Terms Agreements

No need to open competition; it exists

Outsourcing arrangements

Benchmarking rights

Right to insource/resource

Right to terminate for convenience (defined limits on exposure)



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## Gain Sharing Arrangements

Typical – no gain sharing provisions  
Outsourcing (IT and BPO)

We have not experienced benefits with provisions  
In situations w/o direct gain sharing provisions UTC  
consent required for major process changes

With aggressive pricing, suppliers position is that  
unknown process improvements are built into the  
price



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## Base Lining

Generally accepted template used  
Elements

Volume counts

Asset inventory

Functional areas (towers)

Subprocesses (as granular as necessary) – for  
each define current:

Full Time Equivalents (FTEs)

\$s



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## Incentives

Service Level Agreements (SLAs)

Susceptible to analytical measurement

Reflect desired performance characteristics

Tie credits to misses

Miss “minimum”

Miss series of “expected”

Earnback formulas

Increased use in all service agreements





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